Description of Some of the More Common Methods of Title Transfers Used in Marketing Grain by Farmers

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The changing production and marketing structure of the grain farmer in the U.S. has been accompanied by changes in the methods of pricing and transferring the title of grain at the primary marketing centers dealing directly with the farmer. The marketing requirements of grain farmers vary widely from those who need immediate liquidity of their grain crops, to those who want a guaranteed price, to those who are willing to retain title in order to have the opportunity to try to reduce marketing costs, to those who prefer to speculate in the market by using their own grain instead of the futures market.

In order to fill these marketing requirements the elevator industry has developed several ways for the farmer to play each of the marketing games. The most popular marketing alternatives other than the conventional cash sale at harvest are: (1) selling out of commercial or farm storage, (2) advanced contract (pre-harvest), (3) delayed price, and (4) pooling. Other variations are in use but the above four alternatives represent the more recent types of title transfer which can be classified as different from the more traditional method.

1. Selling Out Of Storage

Farmers who store grain at commercial warehouses usually are trying to accomplish one of two things: (a) reduce the overall marketing cost, or (b) speculate on price (seasonal price increases). Cash grain prices at harvest usually reflect the overloading of the physical facilities, i.e., storage, drying and transportation, and are usually lower in relation to the futures market than when these market pressures on the physical facilities are not present. Farmers who store hope that the improvement in the basis (difference between the cash price and the futures price in question) will be greater than the cost of storage, interest and other charges associated with ownership. If this happens, marketing costs have been reduced and the net gain will go to the farmers who hold title to the grain over the storage period.

Storage for speculation simply allows the farmer to hold title until he believes the price will increase as the result of a varied number and variety of exogenous factors which he believes will influence price in his favor. Some farmers may use the warehouse receipt issued against grain stored in licensed warehouses as collateral for a loan thereby increasing their capital liquidity during the period the price game is played. Under the storage agreement, the farmer holds title as long as the grain is stored under his account.

2. Advanced Contract

Advanced contracting by grain farmers is a more recently designed practice brought about by the desire of the farmer or his creditors to guarantee a price for grain prior to harvest.

Basically a farmer can sell part or all of his expected crop even before it is planted; however, the most accepted practice is selling the crop after the crop is developed sufficiently to give some degree of assurance that a crop will be harvested. The most popular time period for contracting corn and soybeans is between June 15 and August 15, depending on the part of the growing area in the U.S. in which the producer is located.

Under advanced contracting the farmer has two choices. First, and most popular, the price is set at the time the contract is made and the farmer is guaranteed an exact dollar amount per bushel when the grain is delivered. The amount to be delivered and the time of delivery is stipulated. If the farmer is short in the estimation of his crop, he still must deliver the amount stipulated or make a compensating financial settlement. If the farmer fails to deliver within the specified time (usually a two month period covering the normal harvest period) the elevator has the legal right to force delivery or receive a compensating financial settlement from the farmer.

The second alternative under contracting is selling prior to harvest at a fixed basis on a harvest futures price with price established at a later date. This alternative affords the farmer the opportunity to fix the basis (marketing costs) and at the same time speculate on price between the time of the contract and the delivery date. Under the terms of each alternative, the actual title to the grain is transferred at the time the contract is made..

3. Delayed Price

Delayed price is a more recent marketing innovation which allows the farmer to speculate on price after delivery of the actual grain is made and also allows the elevator to sell the grain as he sees fit anytime after it is received. In most states, delayed priced grain is not covered under the warehouse laws governing stored grain.

Under delayed price, the farmer delivers grain to the elevator, usually at harvest, and chooses the delayed price option when the grain crosses the scales at the elevator. Title of the grain is transferred at this time. The delayed price option simply gives the farmer the privilege of setting the actual price of the grain at a later date. All other components of the sale are met with the exception of the settlement price. Usually the farmer pays for this privilege in the form of a minimum service charge, monthly service charge sometimes expressed in cents per bushel. The delayed price charges which are assessed by the grain firm are usually subject to change depending on the "cash basis" at the time the delayed price purchase is made. At certain times, when cash grain supplies are extremely short, firms will offer to purchase delayed price grain free of any service charges; on the other hand, when cash supplies are in surplus, service charges will be increased. The most common service charge is expressed in terms of a minimum service charge with additional month by month charges beyond the minimum period.

4. Pooling

Pooling grain is a practice used by some of the regional cooperatives as a method of maximizing the income farmers can receive for grain over the period of a marketing year. When a farmer participates in a marketing pool, he will select this option at the time the grain is delivered to the elevator. The elevator will generally advance to the farmer partial payment for the grain at the time of delivery. The elevator or group of elevators sponsoring the pool will then plan a marketing program for all grain consigned to the pool in an attempt to maximize the benefits which can accrue as a result of orderly marketing grain in larger quantities. When all grain in the pool is marketed, the sponsor of the pool will deduct marketing expenses and the farmers will share in the remaining funds in proportion to the bushels of grain deposited in the pool.

Generally speaking, pooling has not been a popular method of selling grains although it has enjoyed some limited success in some areas of the U.S. with wheat and soybeans.